

Kentucky Agriculture Finance Corporation

Meeting Notes

July 8, 2003

The Kentucky Agriculture Finance Corporation met at 9:30 am on July 8, 2003 in the Capitol Building in Frankfort, Kentucky.

Members Present:

Ms. Sandy Ross; Ms. Annette Crawford Walters; Mr. Wayne Hunt; Commissioner Billy Ray Smith; Mr. Billy Joe Miles; Mr. Doug Lawson

Members Absent:

Mr. Bob D. Proffitt; Ms. Jane Jones; Dr. Harold Benson; Mr. Gordon Duke; Mr. Charles Miller; Mr. Billy Hurd

Governor's Office of Agricultural Policy Staff Present:

David Bratcher; Gene Royalty; Bill McCloskey; Edith Fultz

Guests:

Mr. Mark Farrow, General Council Kentucky Department of Agriculture
Ms. Ann Stewart, Kentucky Department of Agriculture
Doug Thomas, Kentucky Department of Agriculture
Harvey Mitchell, Kentucky Department of Agriculture
Biff Baker, Legislative Research Commission

Commissioner Billy Ray Smith - announced that the press was notified of this meeting asked the secretary to call the roll. We do not have a quorum.

General Discussion:

David Bratcher - told us that the application for the \$20 million has been filed. This application is on the agenda for the Red and Blue Project Review Committees of the Agricultural Development Board (ADB) this Friday, July 11, 2003. We trust they will recommend to the full board funding of the entire \$20 million. He explained that he and Wayne Hunt gave a short presentation at the June 20, 2003 ADB meeting. They received no negative comments and he feels that everyone is pretty enthusiastic about this project.

Mr. Bratcher – told us that when we met with the HB 611 Oversight Committee last month, Chairman Thomas asked us to send the application to them before we

presented it to the ADB. We received a letter from their staff signed by the two Co-Chairs that they have decided they prefer to go ahead and let the ADB approve or deny projects and they would react to the ADB decision. Mr. Bratcher was of the opinion that the action the HB 611 Committee will be taking is advisory after the fact. They are an appeal mechanism, but there is nothing in the statute that says they can overturn the action of the ADB. He stated that obviously they could overturn it by legislation in the next session.

Biff Baker - reiterated Mr. Bratcher's comments and explained it would be unconstitutional for the HB 611 Oversight Committee to be given the authority to override an Executive Branch Committee decision.

Mr. Bratcher – commented that the House and Senate Committees have some knowledge of what we are attempting to do. He also told us that we plan to move ahead assuming that the ADB will approve this at the July 18, 2003 meeting. -

Commissioner Smith – commented that he had heard questions as to how we arrived at the \$20 million amount and if we are going to put limitations on the different categories. Mr. Bratcher responded, initially we need flexibility because we don't know what the demand is going to be among those three programs. He commented further that Gene Royalty and himself see a lot more demand in the interest buy-down and the lease program than the first time farmer program.

Gene Royalty - commented that he feels that the young farmer program won't be a real strong program. He told us that KAFC could take care of marketing Kentucky products. He also explained that we have had contact with three different companies about the possibility of coming to Kentucky in the last month. At this time all we can do is refer them to the Economic Development Cabinet.

Billy Joe Miles – questioned how far we are away from dispersing funds. Mr. Bratcher responded that in the short term we would probably have to work through the ADB. He told us that if we had a project ready to go today, we would say let the ADB work this program and then we would transfer the entire program to our agency. We would have to first get our regulations implemented. He offered examples of the fluid goat milk processing company, a person making salsa who has expressed interest in the beer building in Maysville and Cumberland Farm Products Co-op.

Commissioner Smith – talked about waste in fruit and vegetable production and ways to salvage some of this loss by bringing in a processor to utilize vegetables that do not meet #1 standards and cannot be sold at the co-op. He offered examples of a salad or salsa maker that could use those cull vegetables.

Mr. Bratcher – told us that we have had some discussion with the Union County people and Jim David Meats who are buying hogs from the co-op in Central Kentucky that includes Washington, Nelson and Marion Counties. Those producers are selling antibiotic/hormone free hogs. They have made overtures to a company called Whole

Foods. This company is in the upscale market and has indicated an interest in buying as much as 600 head of hogs per week through this arrangement. They are looking for working capital.

He told us that his goal is to have this thing up and going and have some demonstrable success stories that we can take back to the General Assembly before the end of the calendar year.

Mr. Royalty - commented that the ADB has funding for the producers. What we need now is a program that will make us more attractive for processors to come here.

Wayne Hunt –stated that the ADB cannot do what we are talking about but we can do this with the Kentucky Agricultural Finance Corporation. He talked about lending to the first time farmer to help him meet match requirements on Agricultural Development Funds.

Mr. Bratcher -shared a paper prepared at the request of Legislative Research Commission on how a county program could be set up.

Annette Crawford Walters - commented that processors would have to wait on growers for produce unless there are already growers in the area.

Mr. Bratcher - told us about a person referenced earlier who makes salsa who is talking to us about developing a certified kitchen where other entrepreneurs could come in and he would help them get their product on the market.

Mr. Hunt – commented that we don't have a way to know how much money this program needs.

Ms. Crawford Walters – asked if we would be trying to utilize existing buildings or aiming toward buying land and building new structures. Mr. Royalty responded that we would have a better chance doing both as we have 142 empty buildings in Kentucky today.

Mr. Hunt - questioned if there is any chance of some of these processing facilities establishing in some of the heavily impacted counties.

Mr. Bratcher – told us that he expects to see some movement from Creekstone in the next few months. He commented further that this program would fit perfectly for them.

Mr. Royalty – told us that what we need to know from processors is what size land site, what square footage building and the cost of equipment they need. Then we can put a program together for them.

Doug Lawson – told us that in the lease program we will be forced to be the underwriter of the credit and from a bank standpoint he would want to see historical records. Mr. Royalty reiterated that we would want to see financial records.

Mr. Bratcher – told us that we would not be the sole financier. We will keep the local lending community involved.

Group comments

Mr. Bratcher - asked for further comments from the group and stated that we have enough opportunities that we can defend what we have proposed going into the next session.

Ms. Crawford Walters - asked if we could go ahead and work on the regulations. Mr. Bratcher responded yes and he will be getting with Mark Farrow on this.

Mr. Bratcher - offered thoughts relative to the three committees referenced in the application and their functions.

- Operating
Lay out / tracking dollars after the fact / contract for banking relationship
- Marketing
Promoting program / new program needs
- Audit
Compliance / Internal review / retaining an auditor

Mr. Lawson - suggested that we go ahead and get our committees established and start acting like the money is here.

Mr. Bratcher - asked Doug Lawson to chair the marketing committee and suggested that the group choose their committees.

Commissioner Smith – suggested the committees be made up of member groups of:

- Operating (7)
- Marketing (5)
- Audit (3)

Next Meeting Date:

The next meeting is scheduled for August 8, 2003 at 9:30 am in the Old Capitol Annex in Frankfort, KY